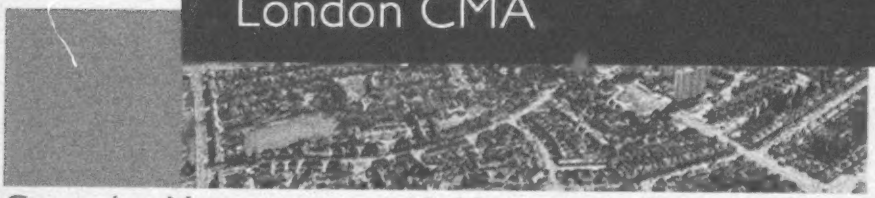
HOUSING MARKET OUTLOOK

London CMA



Canada Mortgage and Housing Corporation

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New Home Market

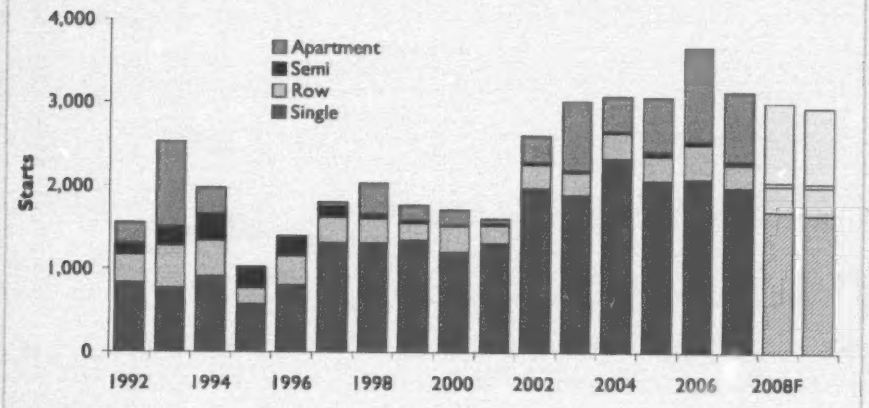
Healthy New Home Market

According to CMHC's New Home Sales Survey, a leading indicator of new home construction, sales of new homes in London CMA started to slow during the second half of the 2007. Led by a 24 per cent drop in sales of the most popular single-detached homes, overall new home sales declined by 22 per cent to 1,737 units compared to 2006.

With sales of new homes slowing in 2007, new home starts are expected to gradually trend down in 2008 and 2009. Nevertheless the level of construction will remain above the historical average of 2,200 units. In 2008, around 3,000 new homes are expected to be started. In 2009

Figure 1

New Home Construction Will Remain High



Source: CMHC

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foundations of some 2,900 news homes will be laid.

As a result of supply outpacing demand in the resale market, there will be less spill-over demand to the new home market. In general, buyers tend to begin their search for homes that suit their needs in the resale market. With more listings in the resale market, more buyers will be able to find what they want in the resale market, resulting in less demand for new homes in 2008.

Construction of single-detached homes will decrease to 1,700 units compared to 1983 units reached in 2007. While the wealthier move-up buyers will continue to support demand for single detached homes, rising prices are expected to keep almost all first time buyers focused on the more affordable resale market, resulting in a slow down in single-detached home starts. The average price of new single-detached homes will reach $304,700 this year, which is more expensive than the average of $230,000 for an existing single-detached home in London.

With seven more apartment projects (totalling around 1,100 units) under review at London's planning department, apartment construction will continue to be buoyant in 2008. Apartment starts will increase to 950 units and some of them will be luxury rentals. Demand for higher-end rentals mostly come from empty nesters and professionals who want the convenience of an apartment lifestyle. However, more international students attending university and colleges in the London choose to live in these high-end rentals. These students are becoming another source of tenants for these luxury rental apartments.

More starts will be seen in the townhome category in 2008. A total of 310 units are expected to start this year, up from 278 units recorded in 2007.

Resale Market

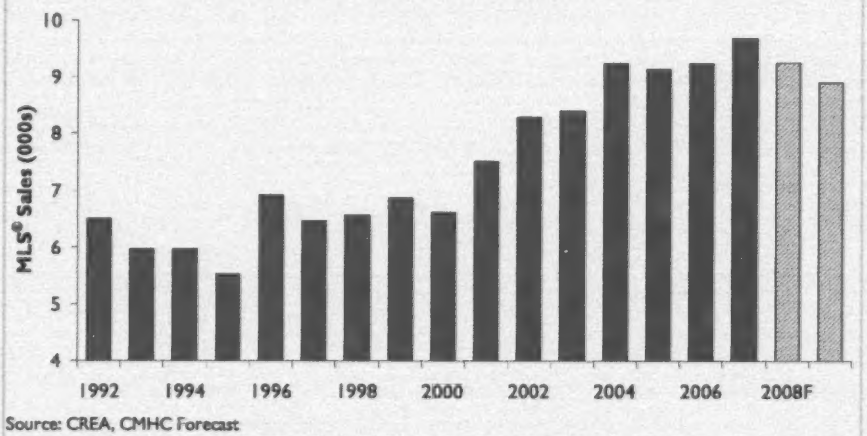
Near Record Existing Home Sales

Coming off from the record high in 2007, the resale home market in the London Census Metropolitan Area (CMA) will cool off in 2008, but remain healthy based on historical norms. Sales of resale homes through the Multiple Listings Service (MLS®) will reach 9,250 units, down only 4.5 per cent down from the 2007 peak. While most sales will continue to occur in London South, strong growth in London North means this area will continue to gain market share. Sales of resale homes in London CMA will trend gradually lower.

Homeownership is very accessible in London, but strong price growth during the past few years has eroded affordability. Although the monthly mortgage payment[1] on an average priced resale home continues to be low compared to the historical standard, it has been edging up during the past few years, resulting higher required income. The ratio of income required to own a home[2] compared to actual household income[3] is well below the provincial average in London, implying that homeownership is more accessible in London than in a number of other centres in Ontario. However, with required

Figure 2

Healthy Sales of Resale Homes



Source: CREA, CMHC Forecast

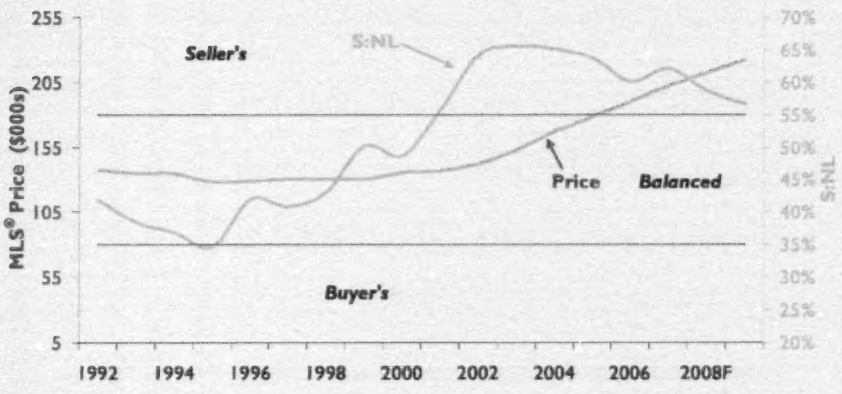
[1] Based on a 25 per cent down payment, the average of all lenders' posted fixed five-year mortgage rates, 25 year amortization.

[2] Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio.

[3] Actual Income is the average household income based on Statistics Canada's Survey of Labour and Income Dynamics to 2005 and estimated subsequently based on average weekly earnings.

Figure 3

The Resale Market Will Become More Balanced



Source: CREA, CMHC Forecast

income growing faster than actual income, some first time buyers will find it harder to become homeowners due to eroding affordability.

The supply of newly-listed homes will continue to grow and surpass the record set in 1996. New listings are expected to hit 15, 760, up 4.1 per cent from 2007. Rising prices are encouraging households to list their homes so they can purchase a different home that meets their current needs more closely.

With the number of new listings growing faster than sales, the Sales-to-New Listings Ratio (SNLR), a leading indicator of price growth and measure of market conditions, will move towards the balanced market territory. Consequently, prices are expected to grow at a slower pace in the London CMA. The average price of a resale home is forecast to increase by five per cent to $213,000, following 6.5 per cent growth in 2007.

On a submarket basis, the strong population growth in St. Thomas during the past few years will continue to fuel housing demand, making St. Thomas the tightest housing market in the CMA.

Economic Trends

Employment Growth Continues

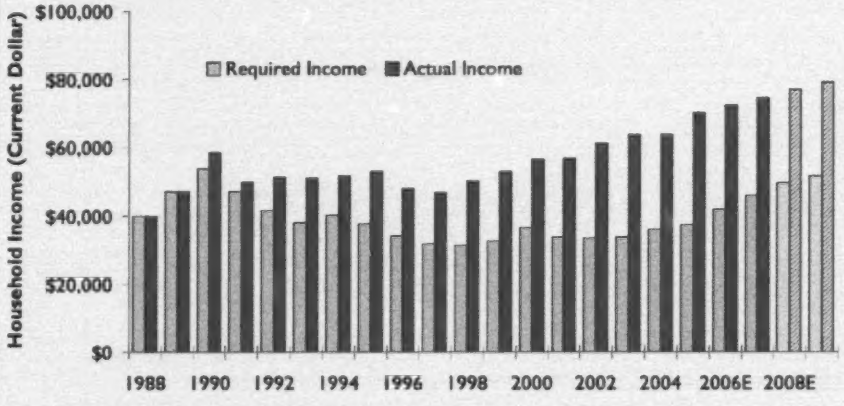
Expanding service sector and healthy investment will continue to power employment growth and contribute to a healthy housing market in London CMA. More than 2000 jobs will be added to London's economy pulling total employment up by 1.8 per cent. The unemployment rate will be slightly higher in 2008, but low compared to the average unemployment rate of 8 per cent experienced in the 1990's.

While hiring in the goods-producing sector started to lose steam in 2004, service sector employment continued to increase. Employment in sectors such as health, education and financial services where earnings are above-average, continue to expand. The employment growth in these high-paying service sectors will continue to support London's housing market.

Investment in residential homes, institutional infrastructure and industrial buildings will also create jobs in London CMA. In 2007, the total value of building permits issued in London CMA reached $ 920 million, the second best year since the peak in 2006. Although London's planning department indicated that some slow down in the total value of building permits would be observed in 2008, large construction projects such as the expansion at the London Health

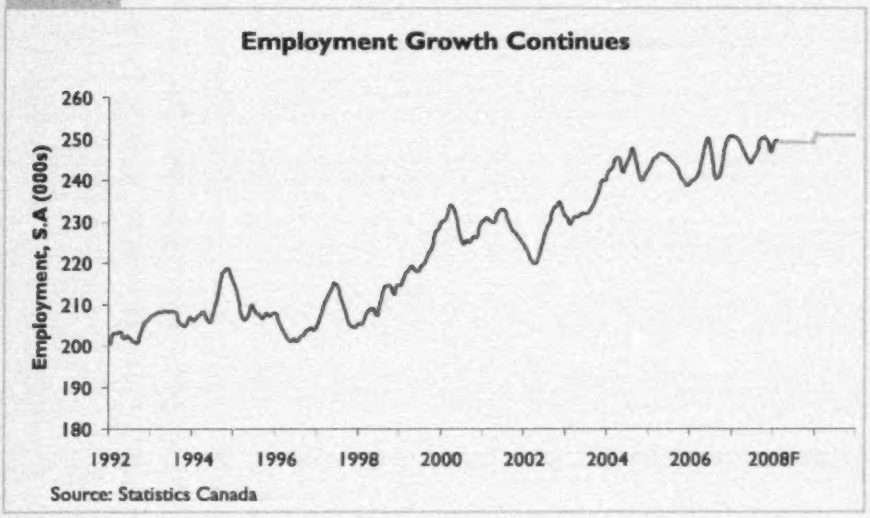
Figure 4

Growth in Required Income Faster than Actual Income



Souce: CMHC, Statistics Canada, CREA

Figure 5



Sciences Centre, will keep the activity in the construction sector high.

Population Growth

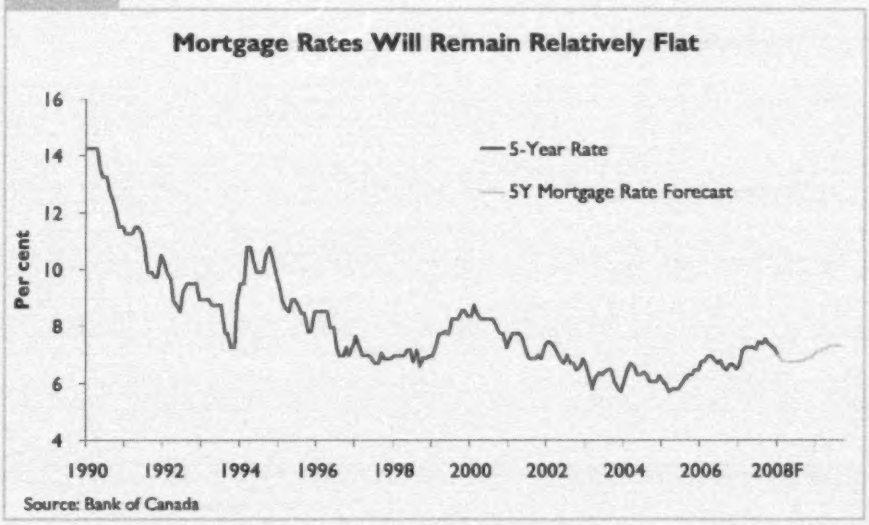
According to the 2006 Census, population in London CMA increased by 5.1 per cent during the past five years, which is slower than the average of 6.6 per cent in Ontario. The slower growth was caused by London's lower than provincial average birth rate. However, positive population growth continues with more immigrants and migrants from other parts of Ontario moving to London during the past few years. In 2008 and 2009, net migration will continue to power population growth in London CMA. Some 2,400 net migrants will come to London to live and work over the next two years.

The 45-64 age group has been the fastest growing segment of population as baby boomers moved into this age bracket. This segment encompasses buyers in both the move-up and empty nesters categories. They are generally considered wealthier than other groups and their high employment will continue to power the pricier new single-detached home market in the London CMA. The largest segment of the population continues to be the 25-44 age group. Most first-time buyers fall into this category, and given relatively large size of this group in London, it is expected that demand for the more affordable resale homes will remain strong.

Mortgage Rates Will Remain Relatively Flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

Figure 6



Forecast Summary London CMA Spring 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	9,133	9,234	9,686	9,250	-4.5	8,900	-3.8
MLS® New Listings	14,329	15,376	15,590	16,220	4.0	16,500	1.7
MLS® Average Price ($)	178,910	190,521	202,908	213,000	5.0	222,500	4.5
New Home Market							
Starts:							
Single-Detached	2,063	2,090	1,983	1,700	-14.3	1,650	-2.9
Multiples	1,004	1,584	1,158	1,302	12.4	1,292	-0.8
Semi-Detached	44	42	42	56	33.3	56	0.0
Row/Townhouse	310	414	278	270	-2.9	300	11.1
Apartments	650	1,128	838	950	13.4	900	-5.3
Starts - Total	3,067	3,674	3,141	3,002	-4.4	2,942	-2.0
Average Price ($):							
Single-Detached	270,936	273,548	290,342	302,000	4.0	312,500	3.5
Median Price ($):							
Single-Detached	240,000	250,975	266,000	280,500	5.5	294,500	5.0
New Housing Price Index (% chg.)	4.9	5.2	3.6	4.2	-	4.2	-
Rental Market							
October Vacancy Rate (%)	4.2	3.6	3.6	3.8	0.2	3.8	0.0
Two-bedroom Average Rent (October) ($)	775	790	816	833	-	856	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-0.40	6.83	-0.12
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-0.53	6.97	-0.04
Annual Employment Level	243,100	245,600	247,400	249,200	0.7	250,900	0.7
Employment Growth (%)	-0.2	1.0	0.7	0.7	-	0.7	-
Unemployment rate (%)	6.6	6.2	6.1	6.3	-	6.9	-
Net Migration [1]	751	1,650	699	1,200	-	1,200	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), London & St. Thomas Association of Realtors (LSTAR)®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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